Daily Update

Your daily market news, moves and outlook

SEASPRAY FINANCIAL
Wealth & Investment Management

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Markets Outlook

Equities: The main equity indices in Europe are moving higher this morning as risk sentiment improves somewhat, the EuroStoxx 50 and 600 indices are currently between 0.50% and 1.20% stronger on the session. We saw comments from Powell yesterday which served to ease some market concerns, the Fed chair stating that the central bank "have not made any decision regarding the balance sheet reduction". We do note that Powell did not actually provide any clear guidance on the potential liftoff of rates in the US in March. Stock market volatility may pick up this afternoon after the US inflation release, the VIX is trading at $18.35 on Wednesday.

Currencies: EUR/USD is trading at the top of its 6-week range around 1.136 on Wednesday morning ahead of important inflation data later today. A significant beat or miss of expectations this afternoon will likely cause volatility for the greenback along with other asset classes in the States.

Safe-havens: Precious metals are slightly lower today after seeing price rebounds yesterday on the back of somewhat less hawkish comments from Jerome Powell, gold trading at $1,815. Bonds have seen very quiet trade in recent days, US 10yr yields edging slightly lower to 1.75% and Germany's 10yr in a tight range around -0.04%.

Looking ahead: Inflation will be the main focus of the day, after the weaker-than-forecast release of China's CPI overnight (1.5% y/y result for Dec vs 1.7% expected). At 1:30pm Dublin time we are due to get the US CPI release, expected to come in at an elevated 7.0% y/y, along with 5.4% for the Core CPI figure. Looking forward, US PPI will come out tomorrow, followed by UK GDP on Friday morning and US Retail Sales that afternoon.

Key Events to Watch

12/01/2022 - US CPI
13/01/2022 - US PPI
14/01/2022 - UK GDP
14/01/2022 - US Retail Sales

Market Moves

Equity Indices	Value	Daily Change	YTD Change
S&P 500	4,713	0.92%	-1.11%
DAX	15,941	1.10%	0.36%
EuroStoxx	4,281	0.99%	-0.39%
ISEQ	8,557	0.56%	1.34%
FTSE	7,491	0.62%	1.45%
Nikkei 225	28,765	1.92%	-0.09%

FX	Value	Daily Change	YTD Change
EUR/USD	1.1364	0.35%	-0.07%
EUR/GBP	0.8334	-0.06%	-0.77%
GBP/USD	1.3635	0.44%	0.74%
USD/CHF	0.9230	-0.45%	1.32%
USD/JPY	115.28	0.07%	0.27%
EUR/JPY	131.03	0.44%	0.20%

Fixed Income	Value	Daily Change
US 10yr	1.746	-0.009
US 2yr	0.888	-0.010
German 10yr	-0.024	0.012
Irish 10yr	0.376	0.010
UK 10yr	1.174	-0.016
Japanese 10yr	0.131	-0.010

Financial News Round Up

Q4 Earnings Season

The fourth quarter earnings season is due to kick off this week, and certainly comes at an interesting time, when markets' focus on all things Federal Reserve is extremely high and concerns continue to mount over stretched equity valuations in the context of rising rates and bond yields. We believe large cap firms in Europe and the US should demonstrate their health with another set of robust profits for the three-month period just gone, despite ongoing difficulties such as high inflation, supply chain disruptions, Omicron-related restrictions in many regions, and wage pressures.

Analysts are forecasting for companies in the S&P500 to deliver y/y earnings growth of about 22% for the fourth quarter, after Q3's impressive increase of almost 40% y/y. We expect nine of the eleven sectors within the US' main index to show earnings growth during the Oct-Dec period; with energy, materials, and industrials likely to yield the highest growth rates. We expect profits to contract slightly in financials and utilities.

We acknowledge that growth rates will seem very strong as a result of y/y comparisons with 2020 when we were still dealing with the initial Covid-19 waves and with no vaccines yet in place, so perhaps a fairer measurement would be the q/q result. The fourth quarter of 2021 is reportedly estimated to see a 4.6% decrease in earnings when compared with Q3, when also accounting for seasonal factors.

Tomorrow we are due to hear from Delta Airlines in the States, followed of course by some of the nation's larger investment banks on Friday.

Grafton Group

UK and Irish based builders merchants business Grafton Group plc has this morning stated that its total revenue from continuing operations increased by a robust 25.7% last year to £2.11 billion, up from the previous £1.68b, and 28.4% stronger than that of 2019.

In its trading update for the 12-month period, Grafton said it saw an "exceptional" performance, adding that it now expects to report full-year adjusted operating profit in its continuing operations at the higher end of expectations.

Grafton saw revenue growth of 14.7% from 2020, when post-lockdown activity in its Woodies DIY, Home and Garden business saw strong demand, and growth of 37.6% from 2019.

"2021 was also a year of significant strategic change for Grafton with the sale of the traditional merchanting business in Great Britain and the acquisition of IKH in Finland" said chief executive Gavin Slark. "The overall outlook remains positive and we look to the future with confidence given the strength of our business, strong balance sheet and good pipeline of investment opportunities" he went on to add.

We reiterate our 'buy' rating on this name, after what we believe has been another solid trading update from the group. Grafton's management remains confident about the overall outlook and have noted that there is a good pipeline of investment opportunities. The stock, which trades on a forward P/E of 15x and TTM P/E of 14.1x vs the industry 21.6x, is almost 3% higher today to £12.16, after gaining over 33% last year. Grafton currently yields a modest 1.44% in terms of a dividend payout, which is well covered by its relatively low 27% payout ratio.